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SUBJECT: RUSSIA-CHINA RELATIONS -- PART 2

Classified By: Deputy Chief of Mission Daniel A. Russell. Reasons: 1.4  
(B/D).

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Summary  
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¶1. (C) Despite the positive official rhetoric from Moscow and Beijing, Russian fears of a rising China will shape the future of their relationship. Continuing areas of concern to the Russians include the lopsided trade relationship (Russia's raw materials for China's finished products), real and imagined "demographic pressure" on the Russian Far East, China's cross-border environmental pollution, Beijing's regional and global political ambitions, and popular xenophobia. Arms sales, a constant in Russian-Chinese relations for decades, have plateaued. While many of these concerns affect the Russian Far East most directly, Moscow's policy makers seem to pay little heed to the region's biggest issues vis-a-vis its neighbor. End Summary.

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Trade and Energy  
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¶2. (C) In 2006, Russia's trade with China was USD 34 billion, making Russia China's ninth largest trading partner. Fifty-four percent of Russian exports last year were oil and oil products, while timber and arms sales comprised the remainder. Russia and China are indeed natural partners on energy. During Putin's visit to Beijing last year, the two countries agreed that the China National Petroleum Corporation (CNPC) would provide a loan of up to USD 400 million to build an oil pipeline from Skovorodino to Daqing, an extension of the Tayshet-Skovorodino pipeline, with oil expected to flow by the end of 2008. CNPC and Rosneft have agreed to build a refinery in China and to undertake joint exploration for new oil in Russia. In August 2006, Rosneft and a subsidiary of Sinopec began drilling an exploratory well on the Sakhalin-3 project, under an agreement signed during President Hu's July 2005 visit to Moscow.

¶3. (C) However, despite significant progress on the energy front, experts here believe that Russia should not simply serve as a raw materials source for Chinese manufacturers. Aleksey Voskressenskiy of the Moscow State Institute of International Relations (MGIMO) found it worrisome that there was no trade framework that undeniably served Russia's interests, leaving China free to shape the trade relationship as it pleased, even in the sphere of oil and gas, where China constantly pushed for below-market prices.

¶4. (C) Even Mikhail Titarenko, one of Moscow's most pro-Beijing analysts, felt that Russia had little chance to penetrate the Chinese market, while the Russian market was being flooded with cheap Chinese goods. Andrey Karneyev, Moscow State University's Vice Director of the Institute of

Asian and African Studies, opined that Russian oil would fuel Chinese industrial growth, which in turn would increase the flow of Chinese exports to Russia. All China hands here spoke of the necessity of "diversifying" Russia's trade with China, but no one had a vision of how that could be accomplished. Vasiliy Mikheyev of the Institute of World Economy and International Relations (IMEMO) argued that it took more than expanding trade to build a good relationship, pointing to the need for mutual investment. During a recent visit to China, he learned that more than half of China's 700 existing research centers were funded by U.S. companies.

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Arms Sales  
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15. (C) With the resolution of the longstanding border dispute and the overall improved relationship, Russia does not consider China a military threat for the immediate future. Ivan Safranchuk, Director of the Moscow office of the Center for Defense Information, told us that Russia was experiencing a "renaissance of relations" with China and that most defense experts spoke of opportunities rather than risks. Although some defense analysts referred to the possibility in the long-term of disputes over natural resources with China, Safranchuk predicted that Russia did not expect relations with China to deteriorate for at least 20 years. Russia believed, he said, that China was focused on Taiwan and U.S. challenges to its growing strength.

16. (C) Despite the fact that China remains Russia's number one arms customer to the tune of roughly USD 2 billion a year, arms deals have plateaued, and Russia has begun to seek other markets. Though Russia was reluctant to sell

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long-range aviation assets to China, Safranchuk said Moscow would sell whatever else China was ready to buy, especially fighters and medium-range bombers, advanced air defense systems, and submarines. Safranchuk added that China needed effective command and control systems to integrate air and naval air forces to prepare for any potential conflict in the Taiwanese Straits. Safranchuk also noted the Chinese often complained about receiving stripped-down versions of Russian advanced weaponry such as fighters. Russia was concerned, he said, that China might be inclined to buy more advanced European weapons systems if the EU arms embargo were ever lifted.

17. (C) China's increasingly sophisticated technical capacities were another Russian worry, most recently on display when China tested an anti-satellite missile on January 11. Moscow was careful not to criticize Beijing too harshly in public, but several contacts told us that Russia was dismayed that the test undermined the two countries' previously shared position supporting an international treaty to ban weapons in space.

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China's Hidden Ambitions  
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18. (C) China's successful efforts to engage the Russians have not allayed growing Russian fears that someday China would use its economic and political power to become an overbearing neighbor. The two countries' difficult past reinforced that fear. MGIMO's Aleksey Bogaturov warned that Russia should temper its current pro-China zeal; relations with the U.S. should remain the centerpiece of Russian diplomacy. Gennadiy Chufurin of IMEMO guessed that Russia could count on an accommodating China for, at most, two decades, unless continued NATO enlargement pushed Russia and China even closer together.

19. (C) Bogaturov thought the Chinese economic presence was being felt in every major city of Russia, and beyond. Russia

was nervously eyeing Chinese economic penetration in Central Asia. Chufirin pointed out that besides the new pipeline connecting Kazakhstan to China, China had signed an inter-state treaty with Turkmenistan, something the PRC rarely did. To some, Chinese commercial expansion fueled a traditional Russian fear of encirclement.

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When It Rains In China, It Rains Yellow in Siberia  
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¶10. (C) Russians also worry about the spill-over effects of environmental damage caused by unrestrained Chinese development. Moscow experts scoffed at promises made in early March by Prime Minister Wen Jiabao that China would improve its environmental standards. They believed that China would never trade rapid economic growth for environmental protection. Russian areas bordering China are most outspoken about China's "irresponsible" environmental record. Many point to the environmental damage caused by frequent spills in the heavily-polluted Sungari river, which flows into the Amur. Twenty million Chinese live on the banks of the Sungari river, while the population of the entire Khabarovsk territory bordering the Amur is barely 1.5 million. Chita Region's environmental NGO, Dauria, complained to us that the region's steppe and taiga have been ruined by Chinese firms overexploiting resources. An NGO rep pointed to the annual yellow sand storm that blankets a large part of North East Asia, including parts of Russia, as an unhappy reminder of the Chinese economic miracle.

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Lonely to be Russian out in Siberia  
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¶11. (C) There is a longstanding popular fear in Russia that the Chinese are in the process of taking over the Russian Far East (RFE). These concerns are spurred by the ever-declining Russian population in Siberia and the RFE, the product of low birthrates, early deaths, and out-migration. Not to worry, said Konstantin Vnukov, Director of the MFA's First Asia Department, who claimed that there were only 35,000 Chinese residents in Russia. Even a generous estimate of 200,000 did not create "demographic pressure." Per Vnukov, a recent poll in major Chinese cities showed that only 1.7 percent of respondents would be willing to consider Russia their future workplace. Gui Congyu of the Chinese Embassy scoffed at Russian fears of waves of Chinese swamping the Russian population. "Who, among us Chinese, would want to live here?" he asked.

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¶12. (C) Popular impressions are little affected by such arguments. Stories in the press speak of Chinese firms buying vast tracts in Siberia to exploit for natural resources and to establish Chinese settlements. Among many examples, the January 11 edition of liberal newspaper Novaya Gazeta argued that "China's annexation of the Russian Far East has effectively started." The newspaper compared Chinese inroads to the expansion of white Americans into the American West: "the Indians watched new towns being built, with alien laws and alien settlers, but they did not understand how extensive and irreversible the process was."

¶13. (C) Russian public opinion polls on attitudes toward China fluctuated widely, according to Dmitriy Polikanov, Director of Opinion and Market Research of the PBN Company. While many polls showed that the overall perception of China had improved in the last fifteen years, others indicated that an increasing number of Russians were dissatisfied with Beijing. According to the latest data from the All-Russian Public Opinion Research Center (VTsIOM), forty percent of Russians viewed Moscow's relations with Beijing as normal, while another thirty-four percent regarded China as friendly. Only fifteen percent described China negatively. On the

other hand, rising xenophobia and nationalism across Russia already affect the Chinese in Russia. The Chinese Embassy here advises its students not to travel alone on Moscow public transport. Ultimately, said Political Counselor Gui Congyu, Russians "cannot stand the sight of us." Although one does not readily spot many Chinese faces in major Russian cities, fears that China are taking over surface easily. The most telling revelation: very few experts thought that Putin's approach to China was sincere; it was driven by Russian calculations about what steps were necessary to accommodate a rising China.

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RFE: Singapore Wannabe But No Chinese, Please  
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¶14. (C) The Russian Far East, the region most directly affected by China, often feels left out of the discussion about how to respond to Beijing's growing strength. As Bogaturov observed, Vladivostok "wants to be another Singapore; but who is going to build it?" His rhetorical question captures the lack of a serious RFE development plan or a sufficient labor force. There is an abundance of labor just across the border, but Russia was reluctant to open the gates to eager Chinese workers. Viktor Larin, Director of the Institute of History, Archeology and Ethnology of the Russian Academy of Sciences, criticized Moscow for not having formulated a viable economic development plan for the region.

In his book, "In the Shadow of the Awakened Dragon" he blamed Russian leaders from Gorbachev to Putin for failing to understand the region and for viewing the Russia-China relationship as something abstract. Putin has confessed to a "lack of systematic, integrated strategic planning in territorial development" for the RFE. Talk of the "socio-economic revival" of the RFE has been a welcome change for RFE residents, who had become used to being ignored completely. Experts, however, agreed that talk had not brought concrete results. Depopulation and relatively slow economic growth in the RFE had only strengthened the Chinese position, which in turn, fueled popular suspicion of China, especially among the region's residents. Experts agreed that the problems were traceable more to GOR fecklessness than to Chinese designs.

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Comment  
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¶15. (C) A strategic interest in maintaining a good relationship with a rising China as well as the possibility for substantial economic gains now power the bilateral relationship and mask the insecurity that China's growing strength provokes among the Russian leadership. Fears about the effects of a powerful China on Russia's strategic position and worries about Moscow's inability to compete economically suggest that relations will become more complicated as China's rise continues.

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